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COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, FEBRUARY 2, 2000

COMMONWEALTH OF VIRGINIA, ex rel.

STATE CORPORATION COMMISSION

CASE NO. PUC000003

Ex Parte, In re: Investigation
of the appropriate level of
intrastate access service prices

ORDER ESTABLISHING INVESTIGATION

By Order dated November 29, 1999, the Commission approved the merger of Bell Atlantic Corporation and GTE Corporation,¹ in Case No. PUC990100. In that Order, the Commission stated:

[T]he Commission has concluded that the issue of the appropriate level of BA-VA's and GTE South's access charges should, and will, be considered in two pending dockets, Case Nos. PUC960021 and PUC990043. We will issue procedural orders in these cases, or in another docket we may establish, within the next few weeks. We expect also to receive evidence in these proceedings regarding the proposal to establish LATA-wide call termination rates.

The Commission has concluded that it should establish a new docket in which to consider access charge issues raised in Case Nos. PUC960021² and PUC990043.³ The Commission has further

¹ The parent companies of, respectively, Bell Atlantic-Virginia, Inc. ("BA-VA") and GTE South Incorporated ("GTE South").

² Application of Bell Atlantic-Virginia, Inc. For a change in access rates for switched access service.

concluded that it should at this time also establish the appropriate level of intrastate access charges for GTE South and for the Sprint companies, United Telephone-Southeast, Inc. ("United") and Central Telephone Company of Virginia ("Centel").⁴

In Case No. PUC960021, BA-VA filed amended tariffs to revise its switched access rates for transport and local switching and directory assistance transport services. The revised rates contained in the amended tariffs were put into effect, subject to refund, on August 22, 1996, and that case has remained pending. In Case No. PUC990043, AT&T Communications of Virginia, Inc. ("ATT-VA") filed a formal complaint against BA-VA, asserting that the access rates that BA-VA charges are too high and should be reduced. BA-VA has filed a Motion to Dismiss the complaint, and ATT-VA has responded.

By this Order we will initiate a procedural schedule and set a public hearing to address the issue of the appropriate prices for access services provided by BA-VA, GTE South, United, and Centel.

In its complaint, ATT-VA notes that the Commission, more than 10 years ago, found BA-VA's access rates to be

³ Commonwealth of Virginia, ex rel., AT&T Communications of Virginia, Inc., v. Bell Atlantic-Virginia, Inc.

⁴ Collectively, we will refer to BA-VA, GTE South, United and Centel as the "LECs," the usual acronym for "local exchange companies." The Commission may consider the appropriate level of intrastate access charges for other Virginia local exchange companies in separate proceedings.

"significantly above cost," in Case No. PUC870012.⁵ In that case, the Commission also emphasized that it did not intend to suggest "that prices should equal incremental costs. Though incremental costs are the absolute floor for access service prices, other factors, including contribution to common costs, value of service, and competitive forces in the access service market must be analyzed when making a pricing decision."⁶

In Case No. PUC930036,⁷ the Commission established alternative plans of regulation, which BA-VA, GTE South, United and Centel have adopted. Each such plan provides that pricing for access services will be considered in accordance with the procedures adopted in Case No. PUC870012, referenced earlier, and as implemented in Case No. PUC880042.⁸

The Commission ordered in Case No. PUC870012, among other things:

- (1) That long-run incremental costing methodology shall be used by all LECs in the future to determine intrastate, interLATA

⁵ Commonwealth of Virginia, ex rel. State Corporation Commission Ex Parte, In Re: Investigation of the appropriate methodology to determine intrastate access service costs, 1988 S.C.C. Ann. Rep. 232, 233 (1988).

⁶ Id.

⁷ Commonwealth of Virginia at the relation of the State Corporation Commission Ex Parte: In the matter of investigating telephone regulatory methods pursuant to Virginia Code § 56-235.5, etc., 1994 S.C.C. Ann. Rep. 262 (October 18, 1994).

⁸ Commonwealth of Virginia ex rel. State Corporation Commission Ex Parte, In Re: Investigation of pricing methodologies for intrastate access service, 1989 S.C.C. Ann. Rep. 210 (April 3, 1989).

access service costs for the purpose of ascertaining the minimum level of cost recovery necessary for such services;

(2) That local loop and central office termination costs shall be included in the incremental costs of both switched and special access;

(3) That WATS and WATS-like services shall be considered switched access services; [and]

(4) That a special access incremental cost study shall be prepared by each of the [] large LECs in Virginia and filed with the Commission within four months from the date of [the] order[.]

In that case, the Commission Staff had conducted a study of switched access incremental costs. Based on this study, we found that since there was "no immediate prospect that switched access rates will fall below incremental costs, switched access cost studies need not be conducted by the LECs at this time." The Commission did order the LECs to file cost studies for special access, as indicated above.

The Order in Case No. PUC870012 was issued more than a decade ago, and the case has been closed since 1988. We believe that it is appropriate, given the passage of time and the rapidity of technological development in the intervening years, that the 1988 Staff cost study of the LEC access charges be replaced. Therefore, current cost studies for both switched and special access services shall be conducted and filed by the four

largest local exchange companies, BA-VA, GTE South, United, and Centel. These studies are to use the long-run incremental costing methodology approved in Case No. PUC870012. If any LEC believes that we should consider another costing methodology, it may file and serve copies of such alternative studies in addition to, and not as replacement of, the long-run incremental costing methodology ordered in Case No. PUC870012. We will also invite other interested parties to file cost studies. We will use these cost studies, as we did in the earlier case, to establish "the absolute floor for access service prices."

As we cautioned a decade ago, we again emphasize that other factors will be considered in making our pricing decisions. Therefore, in addition to the cost studies, we will direct the LECs and invite other interested parties to file testimony and evidence as to all factors they believe the Commission should consider in making any access pricing decisions. Parties should also discuss the weighting(s) they believe the Commission should give such factor(s) in reaching our decision.

Further, we will direct any interexchange carrier that wishes to participate in the proceedings to file testimony and evidence to demonstrate whether and to what extent Virginia consumers will benefit from any changes we may order in the level of LEC access charges. We will invite testimony and evidence from the LECs and others on this point as well.

The Commission Staff will investigate and file a report, which may take the form of prefiled testimony, on these matters after the cost studies, direct testimony, and evidence of the parties are filed. After the Staff report is issued, we will permit all parties to file testimony and evidence to rebut the Staff report or the position of any other party. Thereafter, we will conduct a public hearing to receive evidence on the issues discussed herein. Accordingly,

IT IS ORDERED THAT:

(1) On or before March 31, 2000, BA-VA, GTE South, United, and Centel shall file an original and twenty (20) copies of cost studies, using the costing methodology described above, demonstrating their costs for providing switched and special access services, and may file an original and twenty (20) copies of cost studies using any other methodology they believe we should consider.

(2) On or before March 31, 2000, the LECs shall also file an original and twenty (20) copies of all testimony and exhibits they intend to introduce at the hearing of this matter. Such testimony and exhibits shall address cost studies and other factors the Commission should consider in addition to cost when making its pricing decision.

(3) On or before February 29, 2000, any other interested party wishing to participate as a Protestant shall file an

original and twenty (20) copies of a notice of protest and protest.

(4) On or before May 1, 2000, each Protestant shall file an original and twenty (20) copies of all testimony and exhibits it intends to introduce at the hearing of this matter. An original and twenty (20) copies of any cost study to be offered by any Protestant shall be filed at this time. Protestants are not obligated to file cost studies but must file testimony and exhibits. Any interexchange carrier filing testimony and exhibits shall address in such testimony whether and to what extent Virginia consumers will benefit from any changes we may order in the level of LEC access charges.

(5) On or before June 30, 2000, the Commission Staff shall file an original and twenty (20) copies of a report, which may take the form of prefiled testimony, addressing the results of its investigation of the matters discussed herein.

(6) On or before July 28, 2000, any party may file an original and twenty (20) copies of any rebuttal testimony they intend to introduce at the hearing of this matter.

(7) All items required to be filed shall be contemporaneously served on counsel for each LEC and counsel for each Protestant.

(8) Pursuant to Rule 7:1 of the Commission's Rules of Practice and Procedure, 5 VAC 5-10-10 et seq. ("Rules"), we will

appoint a Hearing Examiner to conduct all further proceedings in this matter.

(9) Responses to discovery requests shall be made within fourteen (14) calendar days of their service upon counsel. Objections to discovery requests shall be made within seven (7) calendar days of their service upon counsel. Discovery or objections to discovery may be served on counsel by telefax or e-mail, and counsel for each LEC and each Protestant shall establish fax numbers and e-mail addresses for the receipt of discovery requests. Discovery will not be served on any Saturday, Sunday, or Virginia holiday. Any discovery served by telefax or e-mail after 5:30 p.m. EST shall be considered served on the next calendar day on which discovery may be served. Otherwise, discovery shall be conducted in accordance with Part VI of the Rules.

(10) On September 6, 2000, beginning at 10:00 a.m., a public hearing shall be convened in the Commission's courtroom, Second Floor, Tyler Building, 1300 East Main Street, Richmond, Virginia, to receive evidence on the issues.

(11) Forthwith, the Division of Communications shall cause to be published in the Virginia Administrative Register and in newspapers of general circulation throughout the Commonwealth the following notice:

NOTICE BY THE STATE CORPORATION COMMISSION
OF INVESTIGATION INTO THE APPROPRIATE LEVEL
OF INTRASTATE ACCESS SERVICES PRICES

On February 2, 2000, the State Corporation Commission, by Order, established Case No. PUC000003, to investigate and establish the appropriate prices for intrastate access services. Access prices are the rates paid by interexchange (long distance) companies for their use of the local exchange telephone network to complete toll calls. These prices are reflected in the rates customers pay for long distance services. A public hearing to receive evidence pertinent to these matters will be held in the Commission's Courtroom, Second Floor, Tyler Building, 1300 East Main Street, Richmond, Virginia, beginning at 10:00 a.m. EDT, September 6, 2000.

A copy of the Order Establishing Investigation is available for inspection in the Office of the Clerk of the Commission, First Floor, Tyler Building, 1300 East Main Street, Richmond, Virginia, and on the Commission's website at <http://dit1.state.va.us/scc/orders.htm>. Persons interested in participating in this investigation as Protestants are directed promptly to obtain a copy of this Order for detailed instructions on how to participate. The Order establishes the dates for filing various documents.

Persons interested in submitting written comments on the appropriate level of intrastate access prices may do so by submitting such comments, making reference to Case No. PUC000003, to the Clerk of the Commission, P.O. Box 1197, Richmond, Virginia 23218. Persons interested in making a statement at the hearing may do so by appearing on the first day of the hearing, before 9:45 a.m., and indicating

such interest to the Commission's bailiff on forms the bailiff will supply.

VIRGINIA STATE CORPORATION COMMISSION

(12) This matter is continued for further orders of the Commission.